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BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

AUG - 4 2014

DOCKETED BY

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IN THE MATTER OF THE APPLICATION
OF ARIZONA WATER COMPANY FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANT AND
PROPERTY, AND FOR ADJUSTMENTS
TO ITS RATES AND CHARGES FOR
UTILITY SERVICE FURNISHED BY ITS
EASTERN GROUP AND FOR CERTAIN
RELATED APPROVALS

DOCKET NO. W-01445A-11-0310

DECISION NO. 74602**ORDER**

Open Meeting
July 22 and 23, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT**A. Introduction**

1. Pursuant to Decision Nos. 73736 and 66400, Arizona Water Company ("Company," "Applicant" or "AWC") filed an application on March 19, 2014, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-One of the Arsenic Cost Recovery Mechanism ("ACRM") for its San Manuel Water System.

2. The monthly surcharge per customer was established to aid the Company in its efforts to comply with the Environmental Protection Agency's ("EPA") arsenic maximum contaminant level ("MCL") of 10 parts per billion ("ppb") which went into effect on January 23, 2006.

3. Pursuant to Decision Nos. 73736 (February 20, 2013) and 66400 (October 14, 2003), AWC filed the required schedules prior to the implementation of the ACRM.

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B. Background

4. On August 5, 2011, AWC filed rate applications with the Commission for its Eastern Group systems: Apache Junction, Superior and Miami (collectively known as the Superstition Division); Sierra Vista and Bisbee (collectively known as the Cochise Division); San Manuel; Oracle; SaddleBrooke Ranch; and Winkelman).

5. On February 20, 2013, the Commission issued Decision No. 73736 establishing permanent rates for these six systems.

6. Decision No. 73736 also approved an ACRM for the Company's San Manuel Water System and provided that the filing requirements for the ACRM for San Manuel would be essentially the same as those outlined in Decision No. 66400.

7. On March 19, 2014, AWC filed an application with the Commission requesting authorization to implement Step-One of the ACRM for its San Manuel Water System.

C. Company's Current Application

8. In its present application, AWC requests a Step-One ACRM surcharge of \$1.45 on the monthly customer charge for 5/8 x 3/4-inch meters¹ and \$0.2346 per 1,000 gallons on the commodity rate.

9. Under the Company's proposal, the residential customer bill with average usage of 6,844 gallons would increase by approximately \$3.05 (or 6.03 percent) from \$50.62 to \$53.67.

D. Authorization for an Arsenic Cost Recovery Mechanism (Decision No. 73736)

10. Decision No. 73736 requires AWC to apply for an ACRM surcharge for each new arsenic treatment facility, with review from Staff and approval from the Commission before any new ACRM surcharge may be implemented. Staff performed an examination of the ACRM Step-One filing for the San Manuel Water System and concluded that it conforms to the requirements specified in Decision No. 73736.

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¹ The proposed customer charge increases for larger meters.

1 **E. Staff's Analysis**

2 **ACRM Schedules**

3 11. AWC's ACRM filing includes the following schedules that conform to the
4 methodologies required by Decision No. 66400 and adopted by Decision No. 73736.

- 5 a. Balance Sheet – dated December 31, 2013.
6 b. Income Statement – period ending December 31, 2013.
7 c. Income Statement Adjustments (Earnings Test) – to conform to Decision No.
8 66400.
9 d. Rate Review – a rate review filing for the San Manuel Water System.
10 e. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for
11 Step One.
12 f. Surcharge Calculation – a detailed surcharge calculation.
13 g. Rate Base – a schedule showing the elements and the calculation of the rate
14 base.
15 h. Construction Work in Progress ("CWIP") Ledger – a ledger showing the
16 construction work in progress account.
17 i. Calculation of 3-Factor Allocation formula for December 31, 2013 – a schedule
18 showing the allocation for all of the AWC.
19 j. Typical Bill Analysis – ACRM Step-one - A typical bill analysis showing the
20 effects on residential customers at various consumption levels including the
21 Average Residential use of 6,844 gallons.

22 12. The ACRM schedules provide a basis for the calculation of the surcharge and an
23 Earnings Test Schedule which limits the ACRM surcharge when the resulting calculation would
24 result in a rate of return exceeding that authorized in Decision No. 73736.

25 13. Staff concluded that the filed schedules conform to the methodologies originally
26 required by Decision No. 66400.

27 14. Staff concluded that the ACRM schedules provide for the calculation of a surcharge
28 based on financial records and an Earnings Test Schedule that limits the ACRM surcharge revenue
to an amount that would not result in a rate of return exceeding that authorized in Decision No.
73736 (9.64 percent). Staff determined the Company met the earnings test by calculating a return
on original cost rate base of 6.72 percent.

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F. Staff's Adjustments To Company Schedules:

15. Staff's examination of the Company's posting of amounts to the CWIP ledger showed that the postings did not accurately reflect the Company's records and reconcile to the supporting documentation submitted. However, the Company subsequently made two adjustments to partially retire a shade structure with original cost of \$2,000 and to remove a coating inspection cost of \$612 not related to the arsenic plant. The adjustments reduce the Company's proposed ACRM rate base by \$603 from \$395,691 to 395,088. Staff recognizes the aforementioned reduction of \$603 by reducing the proposed Step-one ACRM rate base from \$395,691 to \$395,088 as the Company, as shown on Schedule BCA-1.

16. Staff performed a field inspection and verified that the San Manuel system arsenic treatment facilities related to the Step-One ACRM surcharge request are in service and providing water that meets the arsenic standard.

17. The adjustments described above reduce the ACRM Step-One surcharge revenue requirement by \$138 from \$59,953 to \$59,815, as shown on Schedule BCA-2.

18. Staff's adjusted ACRM surcharge revenue requirement reduces the Company proposed monthly minimum surcharge per equivalent billing unit (5/8-inch meter) by \$0.01 from \$1.45 to \$1.44 and the commodity surcharge rate by \$0.0006 from \$0.2346 to \$0.2340 per 1,000 gallons, as shown on Schedule BCA-3.

19. The Staff recommended ACRM surcharge rates would increase the average monthly residential customer bill by \$3.04 (or 6.01 percent) from \$50.62 to \$53.66.

20. We find that Staff's conclusions and recommendations are reasonable and should be adopted.

21. The Residential Utility Consumer Office (RUCO) issued a report on May 13, 2014 and found the Company's application supports an ACRM fixed monthly surcharge of \$1.45 and an ACRM volumetric surcharge of 0.2346 per 1,000 gallons.

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CONCLUSIONS OF LAW

1. The Company is a public water service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250 and 40-252.

2. The Commission has jurisdiction over the Company and of the subject matter of the application.

3. Approval of an ACRM is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Company's request for implementation of the ACRM.

ORDER

IT IS THEREFORE ORDERED that the application by Arizona Water Company for the implementation of Step-One of the Arsenic Cost Recovery Mechanism for its San Manuel Water System is approved as discussed herein.

IT IS FURTHER ORDERED that the ACRM surcharge for Arizona Water Company's San Manuel System shall be in accordance with the rates as shown in the ACRM Schedules below:

Monthly Customer Charges

Meter Size	Base Customers Charge Decision No. 73736	Equivalent Meter Size	Step 1 Customer Charge Surcharge	Combined Base and Step 1 Customer Charge
5/8 x 3/4- inch meter	\$27.00	1.0	\$1.44	\$28.44
1-inch meter	67.50	3.0	3.61	71.11
1-1/2-inch meter	135.00	5.8	7.22	142.22
2-inch meter	216.00	9.3	11.55	227.55
3-inch meter	432.00	18.7	23.10	455.10
4-inch meter	675.00	29.2	36.09	711.09

1	6-inch meter	1,350.00	58.3	72.17	1,422.17
2	8-inch meter	2,160.00	134.4	115.48	2,275.48
3	10-inch meter	\$3,105.00	251.3	\$166.00	\$3,271.00

4 Step 1 Commodity Surcharge of \$0.2340.

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6 IT IS FURTHER ORDERED that Arizona Water Company file with the Commission an
7 ACRM tariff consistent with the above within 30 days of the effective date of this decision.

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1 IT IS FURTHER ORDERED that the above CRM surcharges shall be effective for all bills
2 rendered on or after August 1, 2014.

3 IT IS FURTHER ORDERED that Arizona Water Company shall notify its customers of
4 the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of
5 this Decision.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

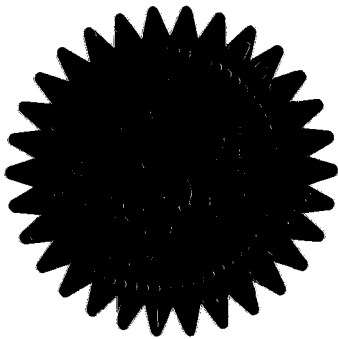
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COMMISSIONER

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COMMISSIONER

11 **EXCUSED**
12 COMM. BURNS

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13 COMMISSIONER

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COMMISSIONER



14 IN WITNESS WHEREOF, I, JODI JERICH, Executive
15 Director of the Arizona Corporation Commission, have
16 hereunto, set my hand and caused the official seal of this
17 Commission to be affixed at the Capitol, in the City of
18 Phoenix, this 30th day of July, 2014.

19 
20 JODI JERICH
EXECUTIVE DIRECTOR

21 DISSENT: _____

22 DISSENT: _____

23 SMO:BCA:sms\BH
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1 SERVICE LIST FOR: Arizona Water Company, San Manuel ACRM Step-One
2 DOCKET NO. W-01445A-11-0310

3 Mr. Joel M. Reiker
4 Vice President, Rates & Revenue
5 Arizona Water Company
6 3805 North Black Canyon Highway
7 Phoenix, Arizona 85015

8 Mr. Daniel W. Pozefsky, Esq.
9 Residential Utility Consumer Office
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11 Phoenix, Arizona 85007

12 Lyn Farmer, Chief Administrative Law Judge.
13 Hearing Division
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15 1200 West Washington Street
16 Phoenix, Arizona 85007

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SCHEDULES

ARIZONA WATER COMPANY

Docket No. W-01445A-11-0310

Rate Base

As of December 31, 2013

Schedule BCA-1

Line No.	[A] Decision No. 73736	[B] Arsenic Plant Increase	[C] Dec. 73736 Plus Arsenic Increase [A + B]	San Manuel		[E] Arsenic Plant Increase	[F] Actual Balance Including Arsenic Increase [D + E]
				Actual Balance	Less Arsenic Increase 12/31/2013		
1							
2	\$ 4,414,635	\$ -	\$ 4,414,635	\$ 4,925,020	\$ -	\$ -	\$ 4,925,020
3	-	398,820	398,820	(398,820)		398,820	-
4	\$ 4,414,635	\$ 398,820	\$ 4,813,455	\$ 4,526,200	\$ 398,820	\$ 398,820	\$ 4,925,020
5	(1,313,983)	(3,732)	(1,317,715)	(1,640,571)	(3,732)	(1,644,303)	
6	\$ 3,100,652	\$ 395,088	\$ 3,495,740	\$ 2,885,629	\$ 395,088	\$ 3,280,717	
7							
8							
9	\$ (61,297)	\$ -	\$ (61,297)	\$ (50,749)	\$ -	\$ (50,749)	
10	(690,109)	-	(690,109)	(648,577)	-	(648,577)	
11	(416,036)	-	(416,036)	(508,916)	-	(508,916)	
12	(11,769)	-	(11,769)	(19,399)	-	(19,399)	
13							
14	107,621	-	107,621	107,621	-	107,621	
15	-	-	-	-	-	-	
16							
17	\$ 2,029,062	\$ 395,088	\$ 2,424,150	\$ 1,765,609	\$ 395,088	\$ 2,160,697	
18							

Docket No. W-01445A-11-0310

Decision No. 74602

ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
Revenue Requirement
As of December 31, 2013

Line No.	[A]	[B]	[C]	[D]
	San Manuel			
	Company As Filed	Adjustment 1 Retire Shade Structure	Adjustment 2 Remove Coating Inspection Cost	
2	\$ 401,432	(2,000) \$	(612) \$	398,820
3				
4				
5	\$ (5,740)	2,000 \$	9 \$	(3,732)
6				
7				
8	\$ 395,692	\$ -	(603) \$	395,088
9				
10				
11	5.38%	5.38%	5.38%	5.38%
12				
13	1.6566 \$	1.6566 \$	1.6566	1.6566
14				
15	8.91%	8.91%	8.91%	8.91%
16				
17				
18	3.34%	3.34%	3.34%	3.34%
19				
20	12.25%	12.25%	12.25%	12.25%
21				
22				
23	\$ 34,504	\$ -	(53) \$	34,452
24				
25				96,881
26	\$ 48,472	\$ -	(74) \$	48,409
27				
28	\$ 11,481	(57) \$	(18) \$	11,406
29				
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31				
32	\$ 59,953	(57) \$	(92) \$	59,815
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Current Rate Dec. No. 73736	ACRM Capital & Ongoing Surcharge	ACRM Deferred O&M (12 Month) Surcharge	Total [A + B + C]
\$ 27.00	\$ 1.44	\$ -	\$ 28.44
\$ 2.1700	\$ 0.2340	\$ -	\$ 2.4040
\$ 4.4520	\$ 0.2340	\$ -	\$ 4.6860
\$ 6.2370	\$ 0.2340	\$ -	\$ 6.4710

Residential 5/8" x 3/4" General Service Rates

Monthly Basic Service Charge	
Commodity Charge (per M Gallon)	
0 to 3,000 Gallons	
3,001 to 10,000 Gallons	
Gallons over 10,000	

ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
Surcharge Calculation
As of December 31, 2013

Line No.	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	San Manuel							
	Incremental Fixed Costs to be Recovered Per Bill							
	Growth							
	No. of Customers	Total Gallons Sold (000s)	Gallons Sold Per Cust. (000s)					
1								
2								
3								
4								
5								
6		1,430	130,729.8	91.4				
7		1,436	124,921.7	87.0				
8		6	(5,808)	(4)				
9		0.42%	-4.44%	-4.84%				
10								
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ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
San Manuel ACRM Step-One
As of December 31, 2013

Schedule BCA-4

Monthly Customer Charges -Staff

[A] [B] [C] [D]

Meter Size	Base Customers Charge Decision No. 73736	Equivalent Meter Size	Step 1 Customer Charge Surcharge	Combined Base and Step 1 Customer Charge
5/8 x 3/4-inch Meter	\$ 27.00	1.0	\$ 1.44	\$ 28.44
1-inch Meter	\$ 67.50	3.0	\$ 3.61	\$ 71.11
1-1/2-inch Meter	\$ 135.00	5.8	\$ 7.22	\$ 142.22
2-inch Meter	\$ 216.00	9.3	\$ 11.55	\$ 227.55
3-inch Meter	\$ 432.00	18.7	\$ 23.10	\$ 455.10
4-inch Meter	\$ 675.00	29.2	\$ 36.09	\$ 711.09
6-inch Meter	\$ 1,350.00	58.3	\$ 72.17	\$ 1,422.17
8-inch Meter	\$ 2,160.00	134.4	\$ 115.48	\$ 2,275.48
10-inch Meter	\$ 3,105.00	251.3	\$ 166.00	\$ 3,271.00

ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
San Manuel ACRM Step-One
As of December 31, 2013

Schedule BCA-5

Commodity Rate - Staff
(ACRM STEP 1)

		[A]	[B]	[C]
Meter Size	Block Size (Gallons)	Base Commodity Rate Decision No. 73736	Step 1 Commodity Surcharge	Combined Base & Step 1 Commodity Rate
5/8 x 3/4-inch Meter Residential	0 to 3,000 Gallons	2.1700	0.2340	2.4040
	3,001 to 10,000 Gallons	4.4520	0.2340	4.6860
	Over 10,000 Gallons	6.2370	0.2340	6.4710
5/8 x 3/4-inch Meter Commercial & Construction	0 to 10,000 Gallons	4.4520	0.2340	4.6860
	Over 10,000 Gallons	6.2370	0.2340	6.4710
1-inch Meter	0 to 30,000 Gallons	4.4520	0.2340	4.6860
	Over 30,000 Gallons	6.2370	0.2340	6.4710
1-1/2-inch Meter	0 to 65,000 Gallons	4.4520	0.2340	4.6860
	Over 65,000 Gallons	6.2370	0.2340	6.4710
2-inch Meter	0 to 100,000 Gallons	4.4520	0.2340	4.6860
	Over 100,000 Gallons	6.2370	0.2340	6.4710
3-inch Meter	0 to 220,000 Gallons	4.4520	0.2340	4.6860
	Over 220,000 Gallons	6.2370	0.2340	6.4710
4-inch Meter	0 to 350,000 Gallons	4.4520	0.2340	4.6860
	Over 350,000 Gallons	6.2370	0.2340	6.4710
6-inch Meter	0 to 725,000 Gallons	4.4520	0.2340	4.6860
	Over 725,000 Gallons	6.2370	0.2340	6.4710
8-inch Meter	0 to 1,175,000 Gallons	4.4520	0.2340	4.6860
	Over 1,175,000 Gallons	6.2370	0.2340	6.4710
10-inch Meter	0 to 1,700,000 Gallons	4.4520	0.2340	4.6860
	Over 1,700,000 Gallons	6.2370	0.2340	6.4710
All - Industrial	4,4520 Gallons	4.4520	0.2340	4.6860
All - Sales For Resale	4,4520 Gallons	4.4520	0.2340	4.6860

ARIZONA WATER COMPANY

Schedule BCA-6

Docket No. W-01445A-11-0310

As of December 31, 2013

Typical Bill Analysis
Residential 5/8 x 3/4 - Inch Meter

Average Number of Customers : 345

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,844	\$ 50.62	\$ 53.67	\$ 3.05	6.03%
Staff Recommended					
Average Usage	6,844	\$ 50.62	53.66	\$ 3.04	6.01%

Present & Proposed Rates (Without Taxes)
Residential 5/8 x 3/4 Inch Meter

Gallons	Present		Company Proposed		%	Staff Recommended		%
	5/8 x 3/4 - inch Meter		5/8 x 3/4 - inch Meter			5/8 x 3/4 - inch Meter		
Consumption	Rates		Rates	Increase		Rates	Increase	
-	\$	27.00	\$	28.45	5.37%	\$	28.44	5.33%
1,000		29.17		30.85	5.78%		30.84	5.74%
2,000		31.34		33.26	6.12%		33.25	6.09%
3,000		33.51		35.66	6.43%		35.65	6.39%
4,000		37.96		40.35	6.29%		40.34	6.26%
5,000		42.41		45.04	6.18%		45.02	6.15%
6,000		46.87		49.72	6.10%		49.71	6.07%
7,000		51.32		54.41	6.03%		54.40	6.00%
8,000		55.77		59.10	5.97%		59.08	5.94%
9,000		60.22		63.78	5.91%		63.77	5.89%
10,000		64.67		68.47	5.87%		68.45	5.84%
20,000		127.04		133.19	4.83%		133.16	4.82%
25,000		158.23		165.54	4.62%		165.52	4.61%
50,000		314.15		327.33	4.20%		327.29	4.18%
75,000		470.08		489.12	4.05%		489.07	4.04%
100,000		626.00		650.91	3.98%		650.84	3.97%
125,000		781.93		812.70	3.94%		812.62	3.92%
150,000		937.85		974.49	3.91%		974.39	3.90%
175,000		1,093.78		1,136.28	3.89%		1,136.17	3.88%
200,000		1,249.70		1,298.07	3.87%		1,297.94	3.86%